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Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 PM-04 NSC-05 SP-02 SS-15 CIAE-00

DODE-00 INR-07 NSAE-00 PA-02 USIA-15 PRS-01 AID-05

OMB-01 EB-07 COME-00 FRB-01 TRSE-00 XMB-04 CIEP-02

STR-04 /086 W
---------- 122382
R 061420Z JAN 76
FM AMEMBASSY ALGIERS
TO SECSTATE WASHDC 3601

UNCLAS SECTION 1 OF 2 ALGIERS 0023

E.O. 11652: N/A
TAGS: ECON, AG
SUBJ: 1976 ALGERIAN BUDGET
REF: ALGIERS 0014

1. SUMMARY: ALGERIAN BUDGET FOR 1976 CHARACTERIZED BY MODERATE EXPANSION OF CURRENT SPENDING, MAINTENANCE OF VERY HIGH RATE OF DEVELOPMENT INVESTMENT, AND BOOST IN DEFENSE SPENDING. BUDGET DIRECTS STRONG CRITICISM AT POOR PERFORMANCE OF STATE ENTERPRISES AND THEIR INABILITY TO PAY TAXES BUT LOOKS FOR IMPROVEMENT UNDER NEW SYSTEM OF SOCIALIST MANAGEMENT. IN EXPLAINING BUDGET, FINANCE MINISTER STRESSED THAT IMF AND MAJOR WORLD BANKS CONSIDERED ALGERIA CREDITWORTHY SO THAT ALGERIA WOULD CONTINUE TO BE ABLE TO BORROW TO FINANCE ITS DEVELOPMENT NEEDS. END SUMMAAY.

2. FINANCE MINISTER MAHROUG AT PRESS CONFERENCE JAN. 3 RELEASED ALGERIAN BUDGET FOR CALENDAR YEAR 1976. WITH THE EXCEPTION OF INCREASE IN DEFENSE EXPENDITURES REPORTED REFTEL, NEW BUDGET DOES NOT CONTAIN ANY MAJOR SURPRISES, BUT IS CHARACTERIZED BY MODERATE EXPANSION OF SPENDING IN MANY AREAS. EDUCATIONSL AND SOCIAL PROGRAMS, NOW HALF OF CURRENT EXPENDITURES, WILL BE INCREASED IN
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RANGE OF 20 PERCENT. SUBSIDIES WILL CONTINUE TO KEEP

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COST OF FOOD DOWN IN 1976. THE VERY HIGH LEVEL OF
DEVELOPMENT INVESTMENT, NOW OVER 40 PERCENT OF GROSS
DOMESTIC PRODUCT, WILL CONTINUE IN 1976. MORE WILL BE
SPENT FOR DEVELOPMENT INVESTMENT IN TELECOMMUNICATIONS,
URBAN HOUSING, AND COMMERCIAL DISTRIBUTION, THOUGH
INDUSTRY WILL CONTINUE TO ABSORB TWO-THIRDS OF
DEVELOPMENT INVESTMENT.

3. ON RECEIPT SIDE,BUDGET WILL REST ON PETROLEUM
REVENUES, WHICH WILL MAKE UP 62 PERCENT OF ANTICIPATED
TOTAL REVENUES. IMPORT DUTIES MAKE UP LARGE AND GROWING
PART OF REMAINDER. NO NEW TAXES ARE FORESEEN IN BUDGET.

4. IN OVERALL OUTLINE, BUDGET LOOKS AS FOLLOWS:

ORDINARY BUDGET:

RECEIPTS $6047 MILLION (UP 10P PERCENT FROM 1975)
EXPENDITURES 5821 MILLION (UP 6.5 PERCENT)
SURPLUS 226 MILLION (UP $191 MILLION OVER 1975)

INVESTMENT PROGRAM:
NEW INVESTMENT $3334 MILLION
SUBSIDIES FOR OPERATION
OF NATIONAL COMPANIES
NOT INCLUDING FOOD 1000 MILLION
TOTAL INVESTMENT IN
NATIONAL COMPANIES 4334 MILLION (UP 2 PERCENT)
OTHER INVESTMENT:
SPENDING INCLUDED
ABOVE UNDER
EXPENDITURES 2171 MILLION
TATAL INVESTMENT: 6505 MILLION (UP 1 PERCENT)

5. SEVERAL FACTORS OF 1976 BUDGET ARE WORTHY OF ATTENTION:
A. MILITARY EXPENDITURES. ACCORDING TO BUDGET,
MILITARY COSTS WILL RISE BY 25 PERCENT IN 1976, THOUGH
DEFENSE COSTS WILL REMAIN LESS THAN 5 PERCENT OF TOTAL
1976 INVESTMENT. (SEE REFTEL FOR MORE DETAIL.)
B. INVESTMENT EFFICIENCY. BUDGET THIS YEAR DIRECTS
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STRONG AND REPEATED CRITICISM AT STATE CORPORATIONS.
BUDGET DOCUMENTS NOTES THAT IT IS DIFFICULT TO SEE HOW
PAST TREND OF HIGHER AND HIGHER PRIORITY FOR
INVESTMENT CAN BE MAINTAINED. IT CALLS FOR MORE
ATTENTION TO BE PAID TO OPTIMUM USE OF FUNDS THROUGH
BETTER CONTROL OVER COSTS AND DELAYS IN CONSTRUCTION AND
BETTER PROFITS FROM THE CAPITAL STOCK ALREADY IN PLACE.
BUDGET DOCUMENT ADDS THAT ECONOMY MUST BE MADE MORE

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EFFICIENT OR COUNTRY RISKS ECONOMIC AND SOCIAL GROWTH
RATE BELOW WHAT WAS PREVIOUSLY EXPECTED.

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ACTION NEA-10

INFO OCT-01 ISO-00 PM-04 NSC-05 SP-02 SS-15 CIAE-00

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UNCLAS SECTION 2 OF 2 ALGIERS 0023

C. PROFITS AND SOCIALIST MANAGEMENT. IN 1975
AND PREVIOUS BUDGETS, SOME NATIONAL COMPANIES WERE
REQUIRED TO MAKE SPECIAL CONTRIBUTIONS TO BUDGET (BEFORE PAYMENT
OF REGULAR TAX). THESE PAYMENTS, WHICH WERE TO TOTAL ABOUT
$130 MILLION IN 1975 BUDGET, WILL NOT BE REQUIRED IN
1976 BECAUSE, BUDGET EXPLAINS, NATIONAL COMPANIES
WERE UNABLE TO MEET REPUIREMENT IN 1975. IN ADDITION,
BUDGET NOTES THAT INSUFFICIENT PROFITABILITY OF
STATE ENTERPRISES LED TO "WEAK" REGUALR TAX PAYMENTS IN 1975.
TO ATTEMPT TO CHANGE THIS PROBLEM, ALGERIAN NATIONAL
FIRMS ARE MOVING TO SYSTEM OF SOCIALIST MANAGEMENT
WHERE WORKERS WILL SHARE IN ANY PROFITS. BUDGET
THUS CALLS ON WORKERS NOT ONLY STRIVE TO SEE COMPANY
ACCOUNTS BALANCED, BUT TO WORK TOWARD SURPLUSES TO
FINANCE FUTURE DEVELOPMENT AND HIGHER STANDARD OF LIVING
FOR THEMSELVES.

D. FINANCING AND MONEY SUPPLY. OF THE $4.3 BILLION
IN INVESTMENTS PLANNED BY NATIONAL CORPORATIONS
IN 1976, 3.25 BILLION WILL BE FINANCED IN FORM OF DIRECT
AND INDIRECT LOANS FROM ALGERIAN TREASURY. REMAINDER
WILL PRESUMABLY BE MADE UP BY EXPANSION OF TOTAL

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ALGERIAN BANK LOANS, AND EXTERNAL BORROWING. BUDGET
ALLUDES BRIEFLY TO FACT THAT SAVINGS RATE MAY BE
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INSUFFICIENT TO PERMIT THIS INVESTMENT LEVEL. AT
JAN 3 PRESS CONFERENCE, FINANCE MINISTER MAHROUG
CONFIRMED THAT AS IN PAST, MONEY SUPPLY WILL HAVE TO BE
INCREASED SUBSTANTIALLY TO ALLOW TREASURY LOANS OF
MAGNITUDE CONTEMPLATED IN 1976 BUDGET. MAHROUG
EXPECTED MONEY SUPPLY WOULD GROW 35-45 PERCENT IN 1976
IN COMPARISON WITH 35-40 PERCENT IN 1975.

E. EXTERNAL DEBT. THOUGH NOT DISCUSSED IN BUDGET,
FINANCE MINISTER MAHROUG AT PRESS CONFERENCE PUT
CURRENT DEBT SERVICE RATIO AT 15 PERCENT, OR AT LEAST
2 PERCENT HIGHER THAN PREVIOUS ESTIMATES EMBASSY HAS
HEARD. IN GIVING FIGURE, MAHROUG EMPHASIZED THAT CONTINUED
READINESS OF INTERNATIONAL BANKS TO LEND TO ALGERIA
PROVED COUNTRY'S CREDITWORTHINESS. MOST DIFFICULT
TIME, MAHROUG ADDED WOULD BE 1976-1980 PERIOD. BY
1980, ALGERIA WOULD INCREASE ITS LNG PRODUCTION BY 20
BILLION CUBIC METERS PER YEAR, EASING FINANCIAL BURDEN.

F. INFLATION. ALTHOUGH BUDGET CONTAINS NO ESTIMATE
OF RATE OF INFLATION, FINANCE MINISTER ESTIMATED THAT
COSTS OF EQUIPMENT FOR PLANNED INVESTMENTS WOULD BE
15 PERCENT HIGHER IN 1976 THAN IN 1975
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